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Uzbekistan, Republic of

Cotton and Products

Cotton and Products Annual

2009

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Report Highlights:

Estimated cotton exports for MY2008/09 have been lowered to 3.0 million bales. Exports are forecast to fall to 2.9 million bales in MY2009/10 and production to fall to 4.5 million bales. Unless the global economy recovers and demand increases, stocks will continue to rise.

Includes PSD Changes: Yes
Includes Trade Matrix: No
Annual Report
Ankara [TU1]
[UZ]

Table of Contents

Executive Summary 3

Production 3

 Production Policy 4

Consumption..... 5

Trade..... 5

Stocks 6

Executive Summary

MY2009/10 mass cotton sowing will start about April 10; in some southern regions it might start even earlier. Reported very low level of precipitations in winter might lead again to water shortage problems throughout Uzbekistan during vegetation period. In 2008, taking water shortage problems into account, the government adopted a decree decreasing the targets for seed cotton sown area and production for MY2009/10 to 1.315 million hectares and 3.4 MMT respectively. Because of expected shortages in irrigation water, Post's preliminarily forecast of MY2009/10 lint cotton production has been lowered to 4.5 million bales. Uzbek cotton exports are forecast at 3.0 million bales; Asian countries and Russia will remain the traditional markets for Uzbek cotton. Estimated exports for MY2008/09 also have been lowered to 3.0 million bales.

Over the last several years it has become increasingly difficult for producers to attain state targets due to poor farming practices and the absence of appropriate production incentives. Official production reports generally match the production targets, regardless of actual yields.

Despite continuing efforts to increase local mill capacity, domestic consumption is forecast to decrease in MY2009/10 due to the global economic slump and drop in world cotton consumption.

The government of Uzbekistan still maintains tight control over all aspects of cotton production, including area planted, production targets, prices, inputs, procurement and marketing nearly all the cotton in Uzbekistan. Domestic supplies are allocated according to the government's quota or plan, mainly to State Joint-Stock Company "Ozengilsanoat" which then distributes cotton to domestic millers according to sales contracts. The local textile mills can buy cotton also through the Commodity Exchange.

The cotton ginning industry is one area of the country's economy where new investments are needed but despite the government's efforts there has been little improvement. The spinning and weaving industries continue to invest heavily in new equipment as well as to renovate existing equipment due to improving profitability over the past four years. Domestic demand has been getting stronger with a marginal increase over the past two years, so also is export demand, especially in cotton yarn. However the worldwide crisis hurt the domestic textile industry, and since late 2008 textile production fell. Looking to 2009-10 the textile industry knows it must aggressively pursue quality improvements and production diversification to include more value-added products, rather than rely on low-value yarn based exports, if it wants to remain competitive in a shrinking global market.

Currently, there are more than 41 joint ventures established in the textile industry with partners from Turkey, Germany, South Korea, Japan and Switzerland. As of 2008, foreign investments in the textile industry reached about USD 1.0 billion. The main products produced and exported by textile mills are cotton yarn, gray fabrics and some textile garments.

As in the past few years, China, Bangladesh and Russia are still the major buyers.

Production

MY2009/10 mass cotton sowing will start in mid-April, while some experts believe that below-normal winter precipitation will reduce water supplies and during crop vegetation in late Spring and early Summer. In Tashkent it snowed only twice in the whole winter, and the

snow pack level on the mountains is reportedly very low. In Uzbekistan, 90 percent of farmland uses artificial irrigation. Inefficient and crumbling irrigation systems lead to enormous water loss. Upstream hydro-electric projects and off-season releases are reducing water availability. According to independent experts, in 2007 the region entered another cycle of hydrological drought that normally lasts for two-three years, with below-normal surface water available for irrigation.

The government announced that the target planted area in MY2009/10 would be 1.315 million hectares, less than in MY2008/09. The state production target for seed cotton will accordingly decrease to 3.4 MMT from 3.6 MMT. Because of expected problems with irrigation water supplies before planting, Post's preliminary forecast of MY2009/10 lint cotton production is 4.5 million bales. Production of Extra-Long Staple cotton remains insignificant in Uzbekistan.

Table 1: Cotton Production, Supply and Demand

Cotton Uzbekistan	2007			2008			2009			
	2007/2008			2008/2009			2009/2010			
	Market Yr Begin: Aug 07			Market Yr Begin: Aug 2008			Market Yr Begin: Aug 09			
	Annual Data Displayed		New Post	Annual Data Displayed		New Post	Annual Data Displayed		New Post	
			Data			Data			Data	
Area Planted	0	1,430	1,430	0	1,420	1,420	0	0	1,315	(HECTARES)
Area Harvested	1,450	1,430	1,430	1,420	1,390	1,390	0	0	1,315	(HECTARES)
Beginning Stocks	1,198	1,198	1,198	1,298	1,248	1,248	0	0	2,148	1000 480lb bls
Production	5,500	5,350	5,350	5,000	5,040	4,900	0	0	4,500	1000 480lb bls
Imports	0	0	0	0	0	0	0	0	0	1000 480lb bls
MY Imports U.S.	0	0	0	0	0	0	0	0	0	1000 480lb bls
Total Supply	6,698	6,548	6,548	6,298	6,288	6,148	0	0	6,648	1000 480lb bls
Exports	4,400	4,200	4,200	3,000	3,800	3,000	0	0	2,900	1000 480lb bls
Use	1,000	1,100	1,100	1,050	1,200	1,000	0	0	900	1000 480lb bls
Loss	0	0	0	0	0	0	0	0	0	1000 480lb bls
Total Dom. Cons.	1,000	1,100	1,100	1,050	1,200	1,000	0	0	900	1000 480lb bls
Ending Stocks	1,298	1,248	1,248	1,998	1,288	2,148	0	0	2,848	1000 480lb bls
Total Distribution	6,698	6,548	6,548	6,298	6,288	6,148	0	0	6,648	1000 480lb bls
Stock to Use %	24	24	24	46	26	54	0	0	75	(PERCENT)
Yield	826.	815.	815.	767.	789.	768.	0.	0.	745.	(KG/HA)
TS=TD			0			0			0	
Comments										
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Production Policy

Almost all state farms have been privatized and reorganized into private farms. In spite of implementing structural reforms in the agricultural sector, the government still maintains tight control over all aspects of production including area planted, production targets, prices, inputs, procurement and marketing of nearly all of the cotton in Uzbekistan.

Cotton has been the cash crop in Uzbekistan for generations and a significant source of employment and foreign exchange. However, for the past several years, Uzbekistan has been experiencing serious problems in cotton production for a number of reasons, including

weather, inadequate production incentives (i.e. prices), inadequate and low-quality inputs and deteriorating infrastructure, especially irrigation.

Year by year, Uzbekistan is increasing the use of faster-maturing and higher-quality varieties. During the last five years, the government initiated a major program to reform the cotton sector, aimed mainly at improving fiber quality. Reportedly nowadays, the variety 'Bukhara 6' has been widely sown and it is giving good quality results.

Furthermore, the local ginning industry has made some improvement in their ginning technology, as a result of which the ginned lint has less trash content than in the past. Reportedly, 80-85 percent of all produced lint is of higher grades, strict and good middling, and the lower grade volumes have decreased.

The cotton ginning industry nevertheless is one area of the country's economy where new investments are needed.

Consumption

The government has often stated that it would like to process more of Uzbekistan's cotton production domestically, but it has had only limited success. Less than 25 percent of all cotton is consumed domestically. Effective ginning capacity is estimated to be well below the 6.0 MMT of installed capacity due to equipment problems. Taking into account these and other production problems the government recently announced a modernization and reconstruction program for some cotton gins during 2007-2011. According to this program, the government is planning to modernize 41 cotton gins and close 30 cotton gins in big cities, in particular those gins with old equipment and with the lowest efficiency.

All cotton lint is still sold either to the trading companies of the Ministry of Foreign Economic Relations, Investments and Trade (MFERIT) for export and partially allocated to the Republican Commodity exchange that organizes cotton lint sales for domestic consumers.

Prior to the world economic slump, the spinning and weaving industries had been investing heavily in new equipment and renovation of existing equipment, as domestic and export demand grew, especially for cotton yarn. As global markets have contracted, the textile industry more than ever must aggressively pursue quality improvements and production diversification to include more value-added products, rather than to rely mainly on low-value yarn based exports, if it wants to remain competitive.

Currently, there are more than 40 joint ventures established in the textile industry with partners from Turkey, Germany, South Korea, Japan and Switzerland. As of 2008, foreign investment in the textile industry reached about USD 1.0 billion. Cotton yarn production was projected to grow 50,000 tons, stockinet by 18,000 tons, fabrics by 5.5 million square meters, and knitted products by 7.7 million pieces. However, these production goals are probably unrealistic in light of slack global demand. As a result, Uzbekistan's MY2009/10 domestic cotton consumption is forecast to decline to 900,000 bales.

Trade

Estimates of Uzbekistan's MY 2008/09 cotton exports have been lowered to 3.0 million bales compared to the last MY. According to trade sources, because of very slow trade as of today, only about 300,000 tons of lint was exported of MY2008/09 crop. The preliminary export

forecast for MY2009/10 is 3.00 million bales. MY 2009/10 exports are likely to decline further, to 2.9 million bales.

The government still controls both state-order cotton and over-quota free cotton through the trading companies associated with MFERIT. MFERIT coordinates sales, export prices and shipments of all cotton. China, Bangladesh, Korea, and Russia remain the traditional buyers of Uzbek cotton.

Stocks

If the global economic slump continues and export demand for cotton and textiles remains slack, by the end of the 2009/10 marketing year Uzbekistan's cotton stocks are forecast to reach 2.8 million bales, nearly equal to expected exports. It is too early to tell how the Uzbek government might respond to such a development. It could reduce further the production target and increase food crop area planted.